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Chartered Financial Planners

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DECISIONS THAT DETERMINE YOUR STANDARD OF LIVING IN RETIREMENT

The choices you need to make that will determine how much income you live on once retired

Sooner or later we all retire, and the decisions you make today are the ones that will determine your standard of living in retirement. If you are approaching your retirement, there are some very important choices you need to make that will determine how much income you live on once retired.

Firstly, you'll need to check your personal, company and State Pensions. You must make sure you have enough income to provide for your needs in the future. If you are planning on using your pension to buy an annuity when you retire, it is essential that you don't just accept the deal offered by your pension provider, as you could potentially lose out on a significant amount of money over the lifetime of the annuity.

EXERCISE YOUR OPEN MARKET OPTION

You should always exercise your Open Market Option that will enable you to get the best possible deal for your pension fund. Comparing the different rates available – instead of buying an annuity from the company with whom you have built up your pension savings – could result in a significant increase to your retirement income, depending on your circumstances.

You can buy your annuity from any provider and it certainly doesn't have to be with the company you had your pension with. The amount of income you will receive from your annuity will vary between different insurance companies, so it's essential that you receive professional financial advice before making your decision.

DON'T FORGET ABOUT INFLATION

As you are likely to spend around 20 or even 30 years in retirement, remember that inflation could have a serious impact on the purchasing power of your savings. If you have opted for an inflation-linked annuity rather than a level annuity, then you will have protection against the rising cost of living.

WORK OUT CAREFULLY HOW MUCH INCOME YOU NEED TO DRAW

When you retire, you don't have to go down the route of purchasing an annuity. An alternative to purchasing an annuity is to leave your pension invested and take a portion of the pension pot each year as an income, hence the phrase 'income drawdown'. This option may also mean that you could possibly leave your family some legacy when you die, as your pension pot, after tax of 55%, passes on to your family according to your wishes. However, if you take out too much, your capital could soon be eaten away. But the upside of not buying an annuity is that your funds remain invested with the potential for further growth.

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ANOTHER ROUTE WORTH CONSIDERING IS FLEXIBLE DRAWDOWN

To qualify for flexible drawdown, you must have a guaranteed pension income of £12,000, known as the 'Minimum Income Requirement'. If you are eligible, then you can withdraw the rest of your pension fund in a manner that best suits your circumstances, whether that's in its entirety or in part withdrawals. It is often sensible to make withdrawals over several years though, as you still pay income tax on any withdrawals, so the larger the withdrawal, the more tax you'll pay.

HAVE YOU FORGOTTEN ABOUT ANY OTHER PENSIONS?

It can be easy to lose track of pensions over time, especially if you move from job to job, but you can locate a lost pension by contacting the Pension Tracing Service online at www.gov.uk/find-lost-pension. This service is free, and if they locate your pension, they'll give you the address of your scheme provider.

While annuities are generally guaranteed to be paid, remaining invested and using drawdown means that the value of your pension, and the income from it, can go down as well as up. Therefore, there is a chance that you may not get back as much as you would by using an annuity. Drawdown is a high-risk option which is not suitable for everyone. If the market moves against you, capital and income will fall. High withdrawals will also deplete the fund, leaving you short on income later in retirement.

PROFESSIONAL FINANCIAL ADVICE YOU CAN TRUST

Not sure about your retirement options? There is a lot to think about as you approach your retirement. Contact us to discuss your retirement options and we'll help you decide what's right for you. We look forward to hearing from you.